



0000035128

## BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER

Chairman

WILLIAM A. MUNDELL

Commissioner

MARC SPITZER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

Arizona Corporation Commission

DOCKETED

NOV 14 2005

DOCKETED BY

RW

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR AUTHORIZATION TO  
ACQUIRE OUT-OF-STATE RENEWABLE  
RESOURCES

DOCKET NO. E-01345A-05-0675

DECISION NO. 68296ORDER

Open Meeting  
November 8 and 9, 2005  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On September 22, 2005, APS filed an application seeking authorization to acquire 144 MWs of out-of-state renewable resources.

Background

3. Under Commission Decision No. 67744, APS was required to issue a Renewables Request for Proposals ("RFP") seeking at least 100 MWs, and at least 250,000 MWH, per year of renewable energy resources for delivery beginning in 2006. On May 11, 2005, APS issued the Renewables RFP. APS sought proposals from solar, biomass/biogas, small hydro, hydrogen, and geothermal projects. The Renewable RFP bid responses were required to provide at least 20,000 MWH of renewable energy annually. The resources selected could not exceed 125 percent of APS conventional resource alternatives and be deliverable to the APS system either directly or through displacement, and purchased power agreements had to be for a minimum of five (5) years and a

1 maximum of no more than 30 years. Respondents were also required to offer renewable resources  
2 either with fixed prices or relatively stable prices that did not vary with the price of natural gas or  
3 electricity. No affiliate of APS was allowed to participate in the Renewables RFP.

4 Response to Renewables RFP

5       4.     Twenty-four (24) proposals were received from twelve (12) different respondents.  
6 The proposals consisted of twenty two (22) Purchased Power Agreements ("PPAs") and two (2)  
7 proposed asset sales. Five (5) of the six (6) renewable technologies were represented; wind,  
8 geothermal, solar, biogas/biomass and small hydro. Fourteen (14) of the proposals were for in-  
9 state projects and ten (10) of the proposals were for out-of-state projects. A total of 787 MWs  
10 were proposed in response to the Renewables RFP.

11 Proposal Evaluation

12       5.     The proposals were evaluated in phases. The initial phase evaluation determined  
13 how each proposal compared to the economic threshold specified in Decision No. 67744. The  
14 economic threshold was established to be equal to or lower than 125 percent of market price (APS  
15 Total Avoided Cost), which included APS' Avoided Capacity Cost plus APS' Avoided Energy  
16 Cost. Respondent costs were derived using the project bid price plus any required APS Integration  
17 Costs such as transmission wheeling and other ancillary costs. As a result of the initial phase, APS  
18 eliminated from further consideration projects with prices that exceeded 150 percent of the APS  
19 Total Avoided Cost.

20       6.     The second phase of the evaluation was conducted with APS entering into  
21 discussions with all remaining bidders to get clarification on proposals and refine the offer prices.  
22 Discussions included firming up in-service dates, technology risk, transmission availability, and  
23 performance requirements. In most cases, the in-service dates and pricing were adjusted by APS  
24 during negotiations to reflect final cost of project completion; bidders were not allowed to submit  
25 new prices. In arriving at its final listing, APS eliminated bids with in-service dates after  
26 December 31, 2007. Based on the negotiations held with the bidders, and changes to pricing and  
27 in-service dates, the bids were ranked in accordance to percent of avoided cost from lowest to  
28 highest. As a result of this ranking, APS selected the five (5) proposals that could have in-service

1 dates by December 31, 2007, and had pricing at or below 125 percent of the APS Total Avoided  
2 Cost. At this point, negotiations were entered into with in-state bidders Cambrian Energy  
3 Development LLC ("Cambrian"), and Ameresco Skunk Creek LLC ("Ameresco"); and out-of-  
4 state bidders Cal Energy Company Inc. ("Cal Energy"), and Superior Renewable Energy LLC  
5 ("Superior") to resolve any remaining issues. APS successfully entered into memoranda of  
6 understanding ("MOU") with each company, and is requesting Commission approval to acquire  
7 the out-of-state renewable resources from Cal Energy and Superior.

8         7. The bids also included two Arizona-based projects that, when more recent forward  
9 pricing is applied, are approximately equal to or lower than 125 percent of market prices (APS  
10 Total Avoided Cost). Because we believe there is value in building renewable projects in Arizona,  
11 such as improved long-term reliability of the electrical grid, we will direct APS to work with Staff  
12 to reconsider whether one or both of the potentially price competitive Arizona-based projects  
13 should be included in this application.

14 Staff Analysis

15         8. Staff analysis of the bidding, evaluation and negotiation processes found no  
16 irregularities. The bid process was open and answers to bidder questions were addressed on a  
17 timely basis. All bids were ranked according to bidder supplied cost data. The transfer of the cost  
18 data from the bid documents to the evaluation documents was accurate and verified by Staff. At  
19 this point bids that exceeded 150 percent of the APS Total Avoided Cost were eliminated. Staff  
20 verified the cost calculations. It should be noted that APS utilized its standard processes, and  
21 software, for calculation of its Avoided Capacity Cost, and Avoided Energy Costs, which make up  
22 its Total Avoided Costs. By using a simple cycle combustion turbine, as the conventional resource  
23 alternative, for determining Avoided Capacity Cost, and using the latest forward price curves  
24 available at the time of evaluation for determining Avoided Energy Costs, APS set the Total  
25 Avoided Cost benchmark as high as possible. This provided the bidders the maximum opportunity  
26 to compete with the most expensive conventional resource available to APS.

27         9. Subsequent to the initial ranking, and elimination of the bids exceeding 150 percent,  
28 APS entered into detailed discussions with the remaining bidders to address development schedule

1 and risk, firm-up in-service dates, evaluate technology risk, determine availability and cost of  
2 transmission, identify performance requirements and finalize pricing. At this point, a better picture  
3 of costs and in-service dates were established and the bids were re-ranked based on this  
4 information. Bids that had in-service dates beyond December 31, 2007, and exceeded 125 percent  
5 of the APS Total Avoided Cost were eliminated. No bids were eliminated due to firm/non-firm  
6 classification of power, in-state versus out-of-state, Environmental Portfolio Standard eligibility,  
7 or credit issues.

8 10. In summary, the documentation reviewed in support of the preceding Staff analysis  
9 was adequate. It is Staff's opinion that APS selected, through a fair competitive bid process, the  
10 projects based on the criteria outlined in Decision No. 67744.

11 11. Staff has recommended that APS be authorized to acquire the out-of-state  
12 renewable resources from Cal energy and Superior.

#### 13 CONCLUSIONS OF LAW

14 1. APS is certificated to provide electric service as a public service corporation in the  
15 State of Arizona.

16 2. The Commission has jurisdiction over APS and over the subject matter of the  
17 application.

18 3. The Commission, having reviewed the application and Staff's Memorandum dated  
19 October 25, 2005, concludes that it is in the public interest to approve the APS acquisition of out-  
20 of-state renewable resources from Cal Energy and Superior.

#### 21 ORDER

22 IT IS THEREFORE ORDERED that APS is authorized to acquire the out-of-state  
23 renewable resources from Cal Energy and Superior.

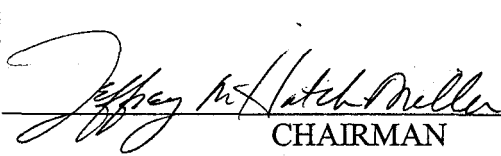
24 IT IS FURTHER ORDERED that the Commission specify in its Order that approval of the  
25 APS acquisition of the out-of-state renewable resources at this time does not guarantee any future  
26 ratemaking treatment of the acquisition.

27 IT IS FURTHER ORDERED that, in addition to the projects approved herein, APS shall  
28 file with the Commission an application to approve one or both of the Arizona-based projects or

1 explain why it rejected both projects within two months of the date of this Decision. The  
2 Commission directs APS to work with Staff to reconsider whether one or both of the potentially  
3 price-competitive Arizona-based projects should be included in a subsequent application for the  
4 Commission's consideration.

5 IT IS FURTHER ORDERED that this decision should become effective immediately.

6  
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8  
9   
10 CHAIRMAN

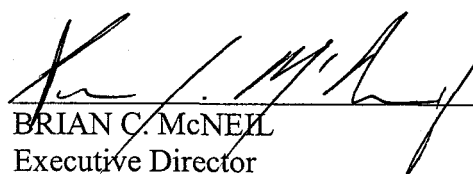
  
10 COMMISSIONER

11  
12   
13 COMMISSIONER

  
13 COMMISSIONER

  
13 COMMISSIONER

14 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
15 Director of the Arizona Corporation Commission, have  
16 hereunto, set my hand and caused the official seal of this  
17 Commission to be affixed at the Capitol, in the City of  
18 Phoenix, this 14<sup>th</sup> day of November, 2005.

18  
19   
20 BRIAN C. McNEIL  
21 Executive Director

22 DISSENT: \_\_\_\_\_

23 DISSENT: \_\_\_\_\_

24 EGJ:WPG:rdp/KL  
25  
26  
27  
28

1 SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY  
2 DOCKET NO. E-01345A-05-0675

3 Ms. Karilee S. Ramaley  
4 Mr. Thomas L. Mumaw  
5 Pinnacle West Capital Corporation  
6 Post Office Box 53999, Mail Stop 8695  
7 Phoenix, Arizona 85072-3999

8 Mr. Scott Wakefield  
9 Chief Counsel  
10 Residential Utility Consumer Office  
11 1110 West Washington Street, Suite 220  
12 Phoenix, Arizona 85007

13 Mr. Timothy M. Hogan  
14 Arizona Center for Law in the Public Interest  
15 202 East McDowell Road, Suite 153  
16 Phoenix, Arizona 85004

17 Mr. Ernest G. Johnson  
18 Director, Utilities Division  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, Arizona 85007

22 Mr. Christopher C. Kempley  
23 Chief Counsel  
24 Arizona Corporation Commission  
25 1200 West Washington  
26 Phoenix, Arizona 85007  
27  
28